

Message Text

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PAGE 01 OTTAWA 01083 171817Z

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FM AMEMBASSY OTTAWA

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TAGS: EFIN, CA

SUBJ: CANADA'S BALANCE OF PAYMENTS

REF: OTTAWA A-8, JAN. 5, 1976

1. STATISTICS CANADA RELEASED ON MARCH 16 ESTIMATES OF CANADIAN BALANCE OF PAYMENTS FOR FOURTH QUARTER 1975 AND ENTIRE YEAR. ON SEASONALLY ADJUSTED BASIS, CURRENT ACCOUNT DEFICIT INCREASED TO C\$1,362 MILLION IN FOURTH QUARTER. NOT SEASONALLY ADJUSTED, CURRENT ACCOUNT DEFICIT DURING SAME PERIOD WAS C\$1,323, AND CAPITAL ACCOUNT WAS IN SURPLUS BY C\$1,421, THUS RESULTING IN INCREASE OF OFFICIAL INTERNATIONAL RESERVES OF C\$98 MILLION.

2. ON SEASONALLY ADJUSTED BASIS, CURRENT ACCOUNT BALANCE IN FOURTH QUARTER BENEFITED FROM REDUCTION OF C\$141 MILLION IN DEFICIT ON MERCHANDISE TRADE, BUT TOTAL DEFICIT ON GOODS AND SERVICES INCREASED TO C\$1,415 MILLION DUE TO RISING INTEREST AND DIVIDEND PAYMENTS.

3. NOT SEASONALLY ADJUSTED, MERCHANDISE TRADE BALANCE WAS IN SURPLUS FOR FOURTH QUARTER BY C\$109 MILLION, BUT SERVICE TRANSACTIONS WERE IN DEFICIT BY C\$1,548 MILLION,
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PAGE 02 OTTAWA 01083 171817Z

THUS RESULTING IN DEFICIT ON GOODS AND SERVICES BALANCE

OF C\$1,439 MILLION.

4. FOR 1975, CURRENT ACCOUNT DEFICIT WAS RECORD C\$5,074 MILLION, ALMOST C\$3.5 BILLION GREATER THAN IN 1974. MAJOR FACTOR FOR INCREASED DEFICIT WAS SHIFT FROM SURPLUS IN MERCHANDISE TRADE OF C\$1.5 BILLION IN 1974 TO DEFICIT OF ALMOST C\$800 MILLION IN 1975. SUBSTANTIAL INCREASE (ABOUT C\$1 BILLION) ALSO OCCURRED IN DEFICIT ON SERVICES.

5. CAPITAL MOVEMENTS DURING 1975 PRODUCED RECORD NET INFLOW OF C\$4,670 MILLION. NET INFLOW WAS ALMOST C\$3 BILLION MORE THAN IN 1974. LARGEST FACTOR IN NET INFLOW WAS SALE OF C\$4.9 BILLION OF NEW ISSUES OF CANADIAN SECURITIES. BALANCE OF CAPITAL IN LONG-TERM FORM WAS SURPLUS OF C\$3,656 MILLION. DIRECT INVESTMENT IN CANADA SLIPPED FROM C\$585 MILLION IN 1974 TO C\$425 MILLION IN 1975, AND CANADIAN DIRECT INVESTMENT ABROAD WAS DOWN FROM C\$675 MILLION IN 1974 TO C\$630 MILLION IN 1975. CURRENT ACCOUNT DEFICIT OF C\$5.074 MILLION WITH CAPITAL INFLOW OF C\$4.670 MILLION RESULTED IN NET DECREASE OF C\$404 MILLION IN CANADIAN NET OFFICIAL MONETARY ASSETS DURING 1975.

6. CANADA'S BILATERAL ACCOUNT WITH U.S. SHOWED DEFICIT IN CURRENT ACCOUNT OF C\$1,320 MILLION FOR FOURTH QUARTER AND C\$4,587 MILLION FOR YEAR (ALL FIGURES NOT SEASONALLY ADJUSTED). MERCHANDISE TRADE SLIPPED FROM SURPLUS OF C\$1,002 IN 1974 TO DEFICIT OF C\$1,115 MILLION IN 1975, AND BALANCE ON SERVICES WENT FROM DEFICIT OF C\$2,658 MILLION TO C\$3,587 MILLION DEFICIT.

7. CAPITAL ACCOUNT BALANCE WITH U.S. FOR 1975 SHOWED DIRECT INVESTMENT IN CANADA OF C\$387 MILLION AND CANADIAN DIRECT INVESTMENT IN U.S. OF C\$261 MILLION. BALANCE OF CAPITAL MOVEMENT IN LONG-TERM FORMS WAS IN CANADA'S FACOR BY C\$3,214, AND TOTAL NET CAPITAL BALANCE SHOWED CANADIAN SURPLUS OF C\$4,870 MILLION.

8. ACCORDING TO STATCAN, 1975 RECORD CURRENT ACCOUNT DEFICIT WAS "MAJOR REASON WHY THE GROWTH IN THE CANADIAN ECONOMY AS MEASURED BY GROSS NATIONAL PRODUCT IN CONSTANT UNCLASSIFIED

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PAGE 03 OTTAWA 01083 171817Z

DOLLARS WAS RECORDED AS A SLIGHT 0.2 PERCENT". "THE ECONOMY BEGAN EMERGING FROM A RECESSION DURING EARLY 1975, BUT THE RATE OF GROWTH ON A SEASONALLY ADJUSTED BASIS HAS BEEN WEAK WITH SOME HESITATION APPEARING IN THE FOURTH QUARTER".

9. STATCAN ALSO MAINTAINED THAT "THE COURSE OF THE CANADIAN ECONOMY HAS TENDED TO DIVERGE FROM THAT OF

ITS PRINCIPAL TRADING PARTNERS. IN 1975, THIS TOOK THE FORM OF A GENERALLY SLOWER RECOVERY FROM A SHALLOWER RECESSION. CANADA'S ENERGY POSITION HAS ALTERED DRAMATICALLY WITH THE INCREASING IMPACT BEING FELT OF CHANGES IN INTERNATIONAL AND DOMESTIC PRICES, REDUCED EXPORT AUTHORIZATIONS, AND THE INDUSTRY INVESTMENT CLIMATE. SUPERIMPOSED WITHIN THE YEAR WERE LABOR STOPPAGES IN TRANSPORTATION, IN SOME EXPORT INDUSTRIES, AND IN POSTAL COMMUNICATIONS, THE COMPLEX EFFECTS OF WHICH ARE NOT EASILY QUANTIFIABLE".
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